through a rate increase for SVLP. This return is higher than the rates of return authorized for energy utilities during 1993. It is somewhat lower than the return authorized for mid-sized telephone utilities. Considering the potential opportunities for future market growth and profitablity, however, we believe a return in this range on a 1994 forecast basis is sufficient to induce continuing investment required by SVLP at least during the interim period pending final disposition of cellular regulation in our Wireless OII.

B. Market Price Comparisons

1. Applicant's Position

D.90-06-025 (Ordering Paragraph 9) requires a showing of comparable market studies based specifically on data within its respective MSA as a basis for rate increases. Since SVLP operates within a duopoly, its proposed rate increase should preserve a competitive choice for consumers. The Applicant offered a March 1992 market study prepared by Paul Kagan Associates, Inc. comparing the monthly bill for a 150-minute customer usage at the lowest possible rates for the top 60 cellular MSAs nationwide. As shown in the study, the Applicant's existing rates are the lowest of any MSA in California and the third lowest in the U.S. After the proposed increase, the bill of a retail customer under contract plan B would pay $61.99 per month, only slightly below the $63.30 bill of its nonwireline competitor (see Exhibit C). The Applicant does not indicate whether its rates would remain competitive at other usage levels or payment plans.

The Applicant also presented as Exhibit 4 a comparison of roamer rates with other cellular carriers in California. The comparison shows that at present rates, SVLP is generally competitive with other carriers. At the proposed increase, SVLP would still remain lower than some carriers, but not others. Precise bill comparisons are difficult because some carriers charge a fixed daily access fee while the applicant does not.

As a broader measure of market comparisons, the Applicant presented statistics on the general rate of price level inflation in the U.S. economy from 1985 when SVLP's rates were established through 1992. According to the Applicant, the consumer price index (CPI) published by the U.S. Department of Labor increased by 23.3% over the 1985-92 period. Using this inflation rate as a comparison, Applicant claims that retail rates would remain on average 9.4% below the levels resulting if 1985 rates were adjusted upward for inflation.

2. __Discussion__

Such comparisons of rate increases against general price level inflation rates provide limited insight to the extent that the generic grouping of commodities used to compute the CPI index have experienced price inflation at a different rate than has the cellular industry. A more meaningful comparison would have been general price level changes within the cellular industry relative to SVLP's proposed increase. Applicant provided no such comparison. Moreover, while applicant favorably compares its retail and wholesale increases relative to the cumulative inflation rate of 23.3% cumulatively between 1985 and 1992, it does not explain why roamer rates for off-peak usage should be increased by as much as 560%. On average, applicant estimates an increase in roamer revenue of 45.1% in 1994 as a result of its proposal. Applicant offers no justification to grant such a disproportionately large roamer increase relative to general inflation.

At best, Applicant's market comparison shows that its proposed increase would essentially eliminate most of the competitive retail price advantage that currently exists. Given the current duopoly structure, the proposed rate increase would largely deny retail customers any competitive alternative in choosing between cellular providers. On this basis, Applicant's market comparisons do not support the view that competitive forces can be relied upon to assure reasonable prices. Rather, they suggest evidence the failure of duopoly competition, supplanted by the regulatory cost-plus ratemaking approach that protects monopolistic enterprises.

The fact that we previously approved prices for SVLP's competitor which may have been comparable to those sought in the present application does not dictate our disposition of applicant's request. The rate increase we approved in 1989 for Sacramento Cellular Telephone Company (Sacto) was based upon different considerations. One of the most notable differences is that Sacto was operating at a net deficit. Moreover, the rate relief granted was expected only to provide about half of the amount required to earn a return similar to that of major local telephone companies at the time. By comparison, SVLP has not been operating a deficit. It merely seeks to improve existing positive earnings.

Rather than establishing a bootstrap for SVLP to raise its rates in tandem with its competitor, we gave notice to cellular competitors that we would scrutinize any attempts to increase rates given the anticipated competitive pressures to generate new business and to keep prices down. It was not our goal to continually wratchet up duopolists' rates to match each other's price increases. As we stated regarding the Sacto rate increase:

> "Approval of this increase ... will result in a pricing disparity in those markets between the two wholesale carriers ...We will be interested to observe the resulting effects upon competition in these markets... In any case, <u>we should expect to analyze and review very carefully any attempted rate increase by Sacto's and SCTC's competitors.</u> In the critical review by the Commission Advisory and Compliance Division, it was found that the <u>primary reason why this rate increase should be approved is that Sacto and SCTC are losing money;</u>...<u>Similar scrutiny will be given to any other requested increases tendered before the conclusion of our OII."</u> (Emphasis added.)

> **(Resolution T-13068, May 10, 1989 - Request for a general rate increase by Stockton Cellular Telephone Company and Sacramento Cellular Telephone Company.)**

Since the issuance of this resolution, we have expressed disappointment at the general failure of competition to lower prices as previously noted in D.93-05-069, and adopted more rigourous standards of scrutiny for cellular carriers seeking increases above existing ceiling levels.

Likewise, our more recent approval of roamer rates for California RSA No. 3 limited Partnership was limited only to permit an improved return from a negative 41% in 1992 to a negative 2% return in 1994. (D. 93-07-011, p. 3.)

Judging from these past examples of rate increase approvals, applicant's request for ratepayer funding of a 12.7% return is unreasonably high.

C. Potential For Cross-Subsidies

1. Position of Parties

Absent the settlement, the original issues raised in the CRA protest are reinstituted. CRA's primary concern was the potential anticompetitiveness of SVLP's wholesale rates vis-a-vis retail rates, as referenced in Section IIA above. This concern related specifically to the issue of cross-subsidies between retail and wholesale rates. For each of the years 1990-1992, the applicant consistently reported a net earnings deficit for retail operations and a net gain for wholesale operations. For example, in 1992, wholesale operations showed a net gain of $8.3 million while retail operations showed a net loss of $7.6 million. To the extent these figures properly allocate costs properly between retail and wholesale service, they indicate cross-subsidization is a problem.

2. Discussion

SVLP's application fails to resolve concerns over the potential of cross-subsidies between retail and wholesale rates.

In order to determine the need for a retail rate increase, we must first determine the proper allocation of common costs between wholesale and retail. Yet, as stated above, we have deferred implementation of a cost allocation methodology pending the outcome of the Wireless OII. As such, we have no established basis upon which to test whether SVLP's proposed allocation of the rate increase between retail and wholesale rates constitutes cross subsidization, and consequently, whether the proposed increases are reasonable.

A competitive firm that is not engaged in predatory pricing will attempt to recover not only retail-related expenses, but also to cover a normal return on its equity capital. We ordered in D.92-10-026 that for purposes of analyzing whether retail operations break even on a rational business basis, a rate of return of 14.75% should be assumed. The 14.75% return corresponded to the maximum rate of return, after sharing, authorized to Pacific Bell in the incentive regulatory proceeding. Yet, as stated above, in D.93-05-069 we deferred implementation of any cost allocation methodology for detecting cross subsidization pending further review of broader industry issues in the Wireless OII. Thus, we cannot determine whether the recorded expense allocations producing the applicant's reported retail deficit are correct since we have not yet implemented cost allocation procedures pending the outcome of the Wireless OII. The application provides no support as to the cost of retail service and whether its proposed retail rates reflect such cost. As such, the record is deficient to support any findings as to the proper pricing relationship between wholesale and retail rates, or whether the proposed rates are reasonable in this respect.

VI. Conclusion

For all these reasons, we find that the applicant has not met its burden of proof that its proposed rate increase is justified based upon its projected earnings with and without the rate increases and market rate comparisons. We thus reject the proposed Settlement Agreement and will proceed with further action on this application in accordance with our Order below.

We provide the applicant the opportunity to revise the terms of its Settlement Agreement so as to make it acceptable for adoption. As an additional measure to assure that the Settlement Agreement represents the affected interests of retail customers, we strongly urge DRA to review the terms of any revised Settlement Agreement. As a representative of ratepayers, DRA's appearance in the proceeding and concurrence with the terms of any revised Settlement Agreement would satisfy us that all affected interests are thereby represented.

Findings of Fact

1. On July 9, 1993, Sacramento Valley Limited Partnership (Applicant) filed an application for authority to increase its rates and charges applicable to radio telecommunications services.
2. California Resellers Association, Inc. (CRA), representing certificated cellular resellers in California, filed a protest to the application on July 9, 1993.
3. Although various customers submitted letters complaining about the proposed increase, no other party formally participated in the proceeding.
4. CRA alleged in its protest that the application warranted dismissal in that it failed to provide supporting data required by D.90-06-025, did not justify any wholesale rate increase, and provided no roamer margin to resellers.
5. By ruling dated October 28, 1993, CRA's request for evidentiary hearings was granted.

6. On December 14, 1993, the Applicant and SVLP jointly filed a motion for adoption of a settlement agreement which resolved all outstanding disputes between the parties.

7. The Settlement Agreement calls for amendment of the application with respect to wholesale rates by enabling resellers to benefit from increased margins at lower usage levels.

8. The Settlement Agreement also provides that resellers' end-users which roam within any of the SVLP or Modoc RSA limited partnership California serving areas would have their usage rated at the appropriate wholesale rate for that area. Resellers would receive a 25% discount when such resellers's end-users roam on systems operated by an affiliate of SVLP's general partner in Los Angeles or San Diego, California.

9. The Settlement Agreement is binding only on the condition that the application, as amended, is approved in its entirety without change on an ex parte basis.

10. The proposed rate changes for retail service remain unaffected by the Settlement Agreement.

11. The applicant estimates that for 1994, its proposed retail rate changes would increase retail service revenues by $7,929,000 or 12.5%, wholesale service revenues by $50,000 or 6.6% and roamer service revenues by $1,938,000 or 45.1%.

12. Taking into account the effects of the Settlement Agreement, the applicant estimates that its 1994 estimated pre-tax income would be lower by $28,000 as compared with the original application, translating into a reduction in return on investment of 0.1%.

13. Since beginning operations in 1985, the applicant has expanded its service area from an initial 1,200 square miles to 12,200 square miles with a corresponding facilities increase from 5 initial cell cites to 97 cell cites as of May 31, 1993.

14. The applicant's significant growth has resulted in increased expenditures for plant investment.

15. Although applicant's significant growth has generated more customer service revenues, the growth in plant investment outpaced the growth in service revenues during 1990-92.

16. During 1990-92, the partners' return on invested plant deteriorated to below 1% due to its rapid growth in plant investment.

17. As a precondition to approval as prescribed in D.92-12-019, the Commission must be satisfied that a proposed all-party settlement:

a. commands the unanimous support of all active parties to the instant proceeding

b. that the sponsoring parties are fairly reflective of the affected interests;

c. that no term of the settlement contravenes statutory provisions or prior Commission decisions;

d. that the settlement conveys to the Commission sufficient information to discharge its future regulatory obligations with respect to the parties and their interests.

18. As adopted in D.93-04-058, Appendix A, Rule 11, no cellular retail or wholesale rate may be raised above rates then-existing levels without a showing according to Ordering Paragraph 9 of D.90-06-025.

19. The Commission has not established explicit guidelines as to how the information provided pursuant to Ordering Paragraph 9 is to be evaluated and against what standards to determine that a rate increase above ceiling levels is warranted.

20. The applicant claims that its proposed rate increase is warranted in order to re-establish the proper balance between the value of the service provided and its price.

21. Based upon the lowest possible customer bill for 150 minutes of usage in each of the Top 60 cellular MSA markets, SVLP's

current customer bill is the third lowest, and after the proposed increase would remain the sixteenth lowest of all markets and the lowest of all listed California MSAs.

22. Although it would remain slightly lower than its competitor after the rate increase based upon the comparison of lowest possible bills, SVLP's proposal would eliminate most of its competitive price advantage currently in place.

23. While SVLP makes comparisons based on the lowest possible bill, it does not indicate how competitive its bills would be on an average or most frequent usage basis, nor does it indicate proposed billing factors which may be higher than those of its competitor.

24. Applicant claims that its proposed retail and wholesale rate increase will still result in a "real" rate decrease relative to a general inflation rate of 23% between 1985 and 1992, yet no comparisons are provided with respect to price level changes specific to the cellular industry.

25. Applicant claims that its rate increase is required to allow it to earn a reasonable return on investment, but it provides no objective criteria to establish what a reasonable return would be for a cellular firm in the initial stages of rapid growth.

26. Although applicant claims that it will only earn 3.9% on its investment in 1994 without a rate increase, this projection is based upon cost and revenue forecasts which were inadequately supported by underlying economic assumptions.

27. Although D.90-06-025 stated that duopoly carriers seeking to increase rates should describe the utilization of its system relative to current engineered capacity, the applicant did not disclose this information.

28. The fact that the earned return is expected to increase from 0.8% in 1992 to 3.9% in 1994 even without a rate increase indicates that earned return is subject to considerable volatility and raises questions as to the reasonableness of basing a rate

increase on a 1994 rate of return measure subject to such volatility.

29. A return on investment for the applicant in the range of 9.5% to 10% would be in keeping generally with the range of returns on rate base which we authorized regulated enterprises during 1993.

30. Although previous Commission decisions have stated that cross subsidization between retail and wholesale cellular operations should be avoided, applicant has not provided an accounting of costs under its proposal to show that such cross subsidization will not occur.

Conclusions of Law

1. Since the applicant proposes a rate increase above ceiling levels as defined in D.93-04-058, it is required to justify its requested increase with a showing as required by Ordering Paragraph 9 of D.90-06-025.

2. The burden of proof is on the applicant to prove the reasonableness of its requested rate increase whether or not it is formally contested.

3. The Settlement Agreement submitted in this proceeding dated December 14, 1993 should be rejected since it does not meet our criteria for acceptance as an all-party settlement in that the sponsoring parties do not reflect the interests of retail customers.

4. The reasonableness of retail and roamer rates must be evaluated on the merits of the substantive evidence since the Settlement Agreement does not adequately represent retail interests.

5. The applicant has not met its burden of proof that the proposed increase in retail and roamer rates is justified.

6. Apart from the Settlement Agreement, the applicant has not justified that its wholesale rate increase is justified.

7. Applicant's proposal to rerate calls placed by its customers while they roam on another cellular carriers network

raises certain legal issues which require resolution in the Wireless OII (I.93-12-007) prior a final disposition of its roamer rate proposals as noted in the ALJ ruling dated February 18, 1994.

8. Since the Settlement Agreement is rejected, the parties revert to their original positions and the Protest filed by CRA becomes reactivated.

9. Further action to dispose of this application should be taken pursuant to one of the options as set forth in the Order below.

INTERIM ORDER

IT IS ORDERED that:

1. The Settlement Agreement submitted by parties on December 14, 1993 is hereby rejected.

2. In order to dispose of this application, the parties shall be given the opportunity to select one of the options for further action in this proceeding, as set forth below. Parties shall notify the ALJ in writing no later than 30 calendar days following issuance of this order, indicating which option is preferred.

a. Amend the Settlement Agreement such that it is not contingent upon adoption of any increase in regular or roamer service for retail customers. The amended Settlement Agreement should be submitted for review no later than 30 calendar days following issuance of this interim decision. In this case, a final decision could then be issued on the merits of the settlement insofar as it is limited to reseller issues and on the remaining application based on the merits of the direct showing of applicant.

b. Discontinue further attempts at settlement and propose reinstituted schedules for discovery and evidentiary hearings on disputed issues as originally ordered pursuant to the ALJ ruling of October 28, 1993 adjusted for the passage of time since the settlement agreement.

3. In the event the parties seek to resubmit their Settlement Agreement, we strongly urge DRA to file an appearance in the proceeding for the purpose of expressing its opinion as to whether the Settlement Agreement is in the public interest. Within five working days following issuance of this order, DRA shall advise the ALJ of availability of staff for purposes of such review.

4. The deficiencies identified in applicant's showing are summarized in Appendix C. Applicant should provide the information called for in Appendix C as a basis for a final decision on the requested rate increase. The information should be provided no later than 30 calendar days following the effective date of this order.

5. Further action shall be taken to dispose of this application following notification from parties concerning preferences for options outlined above.

This order is effective today.

Dated April 6, 1994, at San Francisco, California.

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
Commissioners

I abstain.
/s/ JESSIE J. KNIGHT, JR.
Commissioner

BASIC RETAIL PLAN

PROPOSED RATE CHANGES
(PRE-SETTLEMENT)

- **An Area A Basic Retail Plan customer with 150 minutes of usage and no optional features would see the monthly bill increase 18.1% from $54.50 to $64.35; this includes the impact of the peak period's expansion to Monday through Saturday 7:00am to 8:00pm (excepting specified holidays) which is estimated to increase peak usage from 80% to 85%. New multi-number discounts have been added, and monthly feature charges have been eliminated, which combined could limit the effective increase to 4.3% (from $58.25 to $60.75).**

	Current Charges		Proposed Charges		% Increase (Decrease)	
Price Plan/Element	Area A	Area B	Area A	Area B	Area A	Area B
Basic retail rate plan						
Service Establishment						
1-4 Numbers	$50.00	$50.00	$50.00	$50.00	0.0%	0.0%
5-9 Numbers	$50.00	$50.00	$47.50	$47.50	(5.0%)	(5.0%)
10-24 Numbers	$50.00	$50.00	$45.00	$45.00	(10.0%)	(10.0%)
25+ Numbers	$50.00	$50.00	$42.50	$42.50	(15.0%)	(15.0%)
Monthly Access						
1-4 Numbers	$20.00	$30.00	$24.00	$30.00	20.0%	0.0%
5-9 Numbers	$20.00	$30.00	$22.80	$28.50	14.0%	(5.0%)
10-24 Numbers	$20.00	$30.00	$21.60	$27.00	8.0%	(10.0%)
25+ Numbers	$20.00	$30.00	$20.40	$25.50	2.0%	(15.0%)
Airtime Rates						
Peak	$0.250	$0.350	$0.290	$0.350	16.0%	0.0%
Off-Peak	$0.150	$0.250	$0.150	$0.250	0.0%	0.0%
Monthly Feature						
First	$2.50	$2.50	$0.00	$0.00	(100.0%)	(100.0%)
Second	$1.25	$1.25	$0.00	$0.00	(100.0%)	(100.0%)

SVLP Area A: Sacramento MSA, Stockton MSA, Modesto MSA, Yuba City MSA, Sierra RSA, southern portion of Tehama RSA

SVLP Area B: Chico MSA, Redding MSA, northern portion of Tehama RSA

BASIC WHOLESALE PLAN

- For resellers with >100 numbers and 20,000 peak minutes, an Area A Basic Wholesale Plan end user with 150 minutes of usage and no optional features would generate a monthly bill increase of 17.0% from $42.32 to $49.51; this includes the impact of the peak period's expansion to Monday through Saturday 7:00am to 8:00pm (excepting specified holidays) which is estimated to increase peak usage from 80% to 85%. New airtime discount tiers have been added, and monthly feature charges have been eliminated, which combined could limit the effective increase to 1.1% (from $44.57 to $45.05). In addition, service establishment fees have been reduced 15%.

	Current Charges		Proposed Charges		% Increase (Decrease)	
Price Plan/Element	Area A	Area B	Area A	Area B	Area A	Area B
Basic wholesale rate plan						
Service Establishment	$15.00	$15.00	$12.75	$12.75	(15.0%)	(15.0%)
Monthly Access						
1-4 Numbers						
≤ 100 Numbers	$15.03	$22.95	$18.03	$22.95	20.0%	0.0%
> 100 Numbers	$14.30	$21.45	$16.80	$21.00	17.5%	(2.1%)
5-9 Numbers						
≤ 100 Numbers	$15.03	$22.95	$17.13	$21.80	14.0%	(5.0%)
> 100 Numbers	$14.30	$21.45	$15.96	$19.95	11.6%	(7.0%)
10-24 Numbers						
≤ 100 Numbers	$15.03	$22.95	$16.23	$20.66	8.0%	(10.0%)
> 100 Numbers	$14.30	$21.45	$15.12	$18.90	5.7%	(11.9%)
25+ Numbers						
≤ 100 Numbers	$15.03	$22.95	$15.33	$19.51	2.0%	(15.0%)
> 100 Numbers	$14.30	$21.45	$14.28	$17.85	(0.1%)	(16.8%)
Airtime Rates						
Peak						
≤ 20,000 Minutes	$0.206	$0.288	$0.238	$0.288	15.5%	0.0%
> 20,000 Minutes	$0.203	$0.284	$0.235	$0.284	15.8%	0.0%
> 250,000 Minutes	$0.203	$0.284	$0.232	$0.280	14.3%	(1.4%)
> 500,000 Minutes	$0.203	$0.284	$0.223	$0.269	9.9%	(5.3%)
> 750,000 Minutes	$0.203	$0.284	$0.203	$0.245	0.0%	(13.7%)
Off-Peak						
≤ 2,000 Minutes	$0.123	$0.205	$0.123	$0.205	0.0%	0.0%
> 2,000 Minutes	$0.122	$0.203	$0.122	$0.203	0.0%	0.0%
> 37,500 Minutes	$0.122	$0.203	$0.120	$0.200	(1.6%)	(1.5%)
> 75,000 Minutes	$0.122	$0.203	$0.115	$0.192	(5.7%)	(5.4%)
> 112,500 Minutes	$0.122	$0.203	$0.105	$0.175	(13.9%)	(13.8%)
Monthly Feature						
First	$1.50	$1.50	$0.00	$0.00	(100.0%)	(100.0%)
Second	$0.75	$0.75	$0.00	$0.00	(100.0%)	(100.0%)

SVLP Area A: Sacramento MSA, Stockton MSA, Modesto MSA, Yuba City MSA, Sierra RSA, southern portion of Tehama RSA.

SVLP Area B: Chico MSA, Redding MSA, northern portion of Tehama RSA

RETAIL CONTRACT PLANS:
For SVLP Area A

- Four new 12-month contract plans are being introduced in Area A, offering subecribers discounts up to almost 10% (depending on the selected contract and usage levels) below the proposed Basic Rate Plan. The peak period is the same as for the proposed Basic Plan (Monday through Saturday 7:00am to 8:00pm). The 150-minute customer with a proposed Basic Rate Plan bill of $64.35 would pay only $61.99 on Plan B (a savings of $2.36, or 3.7%).

Contract Plan Rate Element	Plan A	Plan B	Plan C	Plan D
Retail (Area A)				
Contract Duration (months)	12	12	12	12
Early Cancellation Penalty	$150.00	$150.00	$150.00	$150.00
Service Establishment				
1-4 Numbers	$50.00	$50.00	$50.00	$50.00
5-9 Numbers	$47.50	$47.50	$47.50	$47.50
10-24 Numbers	$45.00	$45.00	$45.00	$45.00
25+ Numbers	$42.50	$42.50	$42.50	$42.50
Monthly Access				
Bundled Minutes	50	150	300	500
1-4 Numbers	$35.99	$61.99	$99.99	$144.99
5-9 Numbers	$34.79	$60.79	$98.79	$143.79
10-24 Numbers	$33.59	$59.59	$97.59	$142.59
25+ Numbers	$32.39	$58.39	$96.39	$141.39
Incremental Airtime Rates				
Peak	$0.290	$0.290	$0.290	$0.290
Off-Peak	$0.150	$0.150	$0.150	$0.150
Discount	0.0%	3.0%	6.0%	10.0%

SVLP Area A: Sacramento MSA, Stockton MSA, Modesto MSA, Yuba City MSA, Sierra RSA, southern portion of Tehama RSA

Exhibit G (continued)

WHOLESALE CONTRACT PLANS:
For SVLP Area A

- The same four new 12-month contract plans introduced to retail customers are also available to resellers. The peak period is the same as for the proposed Basic Rate Plan (Monday through Saturday 7:00am to 8:00pm). The 150-minute end user mentioned with a proposed wholesale Basic Rate Plan Bill of $49.51 would generate charges of only $43.39 on Plan B (a savings of $6.12, or 12.4%).

Contract Plan Rate Element	Plan A	Plan B	Plan C	Plan D
Wholesale (Area A)				
Contract Duration (months)	12	12	12	12
Early Cancellation Penalty	$120.00	$120.00	$120.00	$120.00
Service Establishment	$12.75	$12.75	$12.75	$12.75
Monthly Access				
Bundled Minutes	50	150	300	500
≤ 100 Numbers	$25.20	$44.62	$71.22	$102.73
> 100 Numbers	$24.29	$43.39	$69.99	$101.50
Incremental Airtime Rates				
Peak				
≤ 20,000 Minutes	$0.238	$0.238	$0.238	$0.238
> 20,000 Minutes	$0.235	$0.235	$0.235	$0.235
> 250,000 Minutes	$0.232	$0.232	$0.232	$0.232
> 500,000 Minutes	$0.223	$0.223	$0.223	$0.223
> 750,000 Minutes	$0.203	$0.203	$0.203	$0.203
Off-Peak				
≤ 2,000 Minutes	$0.123	$0.123	$0.123	$0.123
> 2,000 Minutes	$0.122	$0.122	$0.122	$0.122
> 37,500 Minutes	$0.120	$0.120	$0.120	$0.120
> 75,000 Minutes	$0.115	$0.115	$0.115	$0.115
> 112,500 Minutes	$0.105	$0.105	$0.105	$0.105
Discount	0.0%	3.0%	6.0%	10.0%

SVLP Area A: Sacramento MSA, Stockton MSA, Modesto MSA, Yuba City MSA, Sierra RSA, southern portion of Tehama RSA

ROAMING

- SVLP has simplified its roaming rate structure by charging the same rate during peak and off-peak periods and the same rate in Areas A and B; California-based roamers will pay a lower roaming rate (79¢ per minute) than out-of-state roamers (99¢ per minute). SVLP customers roaming elsewhere in California will not pay more than 60¢ per minute (with no daily access charges).

	Current Charges		Proposed Charges		% Increase (Decrease)	
Price Plan	In Area A	In Area B	In Area A	In Area B	In Area A	In Area B
Rates for California-based roamers						
Service Establishment						
Occasional	$15.00	$15.00	$15.00	$15.00	0.0%	0.0%
Automatic	$0.00	$0.00	$0.00	$0.00	0.0%	0.0%
Daily Access	$0.00	$0.00	$0.00	$0.00	0.0%	0.0%
Airtime Rates						
Peak	$0.450	$0.550	$0.790	$0.790	75.6%	43.6%
Off-Peak	$0.150	$0.270	$0.790	$0.790	426.7%	192.6%
Rates for out-of-state roamers						
Service Establishment						
Occasional	$15.00	$15.00	$15.00	$15.00	0.0%	0.0%
Automatic	$0.00	$0.00	$0.00	$0.00	0.0%	0.0%
Daily Access	$0.00	$0.00	$0.00	$0.00	0.0%	0.0%
Airtime Rates						
Peak	$0.450	$0.550	$0.990	$0.990	120.0%	80.0%
Off-Peak	$0.150	$0.270	$0.990	$0.990	560.0%	266.7%
Roaming by retail and wholesale end users in California outside the Company's CGSAs	All incurred charges are passed through to the customer		Airtime 60¢ per minute (no access charges). Alpine, El Dorado, and Modoc home-roam charges will be passed through to the customer.		The % increase or decrease varies depending on the rates in the serving area and the usage patterns of the customer.	

SVLP Area A: Sacramento MSA, Stockton MSA, Modesto MSA, Yuba City MSA, Sierra RSA, southern portion of Tehama RSA

SVLP Area B: Chico MSA, Redding MSA, northern portion of Tehama RSA

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is entered into this 14th day of December, 1993, by and between Sacramento-Valley Limited Partnership ("SVLP") and Cellular Resellers Association, Inc. ("CRA"). SVLP and CRA are sometimes collectively referred to as "Parties" or individually referred to as a "Party".

RECITALS

A. On July 9, 1993, SVLP filed Application 93-07-017 (the "Application") with the California Public Utilities Commission ("Commission") seeking to restructure and increase its cellular telecommunication rates. On August 13, 1993, CRA filed a protest to the Application, requesting that the matter be set for hearing. A Prehearing Conference was held on September 27, 1993 to consider the merits of CRA's protest.

B. On October 28, 1993, the assigned Administrative Law Judge issued a ruling (the "Ruling") regarding the protest of CRA. The Ruling (i) granted CRA's request for a hearing, (ii) granted CRA permission to conduct discovery and submit testimony, (iii) directed SVLP to supplement the Application to comply with Ordering Paragraph 9 of D.90-06-025 and justify its proposed changes in peak hours, (iv) established a discovery schedule, and (v) encouraged the Parties to pursue possible settlement.

C. As recommended by the Administrative Law Judge, SVLP and CRA have successfully concluded settlement negotiations, on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, for and in consideration of the mutual terms, covenants and conditions herein contained, the Parties agree as follows:

1. Within three (3) business days following execution of the Agreement, the Parties will file a joint motion with the Commission under Rule 51 of the Commission's Rules of Practice and Procedure for waiver of the requirements of Rule 51, et seq. and for approval of this Agreement (the "Motion"). The Parties agree to use their best efforts and cooperate to obtain the approval of this Agreement by the Commission.

2. SVLP agrees to file with the Motion an amendment to the Application to:

(i) modify the rate schedules and tiers for its proposed wholesale basic and contract rate plans, as specified in Exhibit "A" attached hereto and incorporated herein;

(ii) charge its resellers rates that are equal to the wholesale rates charged by the foreign carrier, when such reseller's end-users roam in California on a system operated by SVLP or Modoc RSA Limited Partnership; and

(iii) charge its resellers a rate that is a twenty-five percent (25%) discount off the comparable rate SVLP proposes to charge its retail customers, when such reseller's end-users roam on the system operated by an affiliate of SVLP's general partner in Los Angeles or San Diego, California.

3. CRA agrees that, as part of the Motion, CRA will withdraw its protest to the Application, as amended, contingent upon Commission approval of this Settlement Agreement, in its entirety.

4. Both Parties agree to join in the Motion in requesting expedited consideration of the amended Application, on an ex parte basis.

5. The promises made herein by each Party shall act as both covenants and conditions upon the other Party's performance.

6. The effectiveness of this Agreement is contingent upon the Commission's issuance of a decision approving this Agreement, in its entirety, and the Application, as amended, on an ex parte basis. If no decision approving this Agreement and the amended Application is issued, on an ex parte basis, this Agreement shall be null and void, the obligations hereunder shall thereupon terminate and the discovery, testimony and hearing schedule will be reinstated, taking into account the time elapsed since the Parties agreed, in principle, to settle.

7. The positions taken herein, and the actions taken in furtherance of this Agreement, are in settlement of contested issues in the Application and are not intended to constitute admissions, or prejudice the positions of each Party, in any other proceeding.

8. Each Party to this Agreement represents that the person executing this Agreement on its behalf has been duly authorized by that Party to execute this Agreement on its behalf.

9. Each Party acknowledges that it has had the benefit and advice of independent legal counsel in connection with this Agreement and understands the meaning of each term of this Agreement and the consequences of signing this Agreement.

10. This Agreement contains the entire agreement between the Parties to this Agreement, and all previous understandings, agreements, and communications prior to the date hereof, whether express or implied, oral or written, relating to the subject matter of this Agreement are fully and completely extinguished and superseded by this Agreement. This Agreement shall not be altered, amended, modified, or otherwise changed except by a writing duly signed by all the Parties hereto.

11. This Agreement shall be governed by the laws of the State of California.

12. This Agreement may be executed in counterparts, each of which shall constitute an original.

IN WITNESS WHEREOF, the Parties have entered into the Agreement, as of the last date written below.

SACRAMENTO-VALLEY LIMITED PARTNERSHIP

By:____________________
Its:____________________
Date:____________________

CELLULAR RESELLERS ASSOCIATION, INC.

By: [signature]
Its: SECRETARY/TREASURER
Date: 12/13/93

Exhibit A

BASIC WHOLESALE PLAN

- For resellers with >100 numbers and 20,000 peak minutes, an Area A Basic Wholesale Plan end user with 150 minutes of usage and no optional features would generate a monthly bill increase of 11.4% from $42.32 to $47.14; this includes the impact of the peak period's expansion to Monday through Saturday 7:00am to 8:00pm (excepting specified holidays) which is estimated to increase peak usage from 80% to 85%. New airtime discount tiers have been added, and monthly feature charges have been eliminated, which combined could limit the effective increase to 1.1% (from $44.57 to $45.05). In addition, service establishment fees have been reduced 15%.

	Current Charges		Proposed Charges		% Increase (Decrease)	
Price Plan/Element	Area A	Area B	Area A	Area B	Area A	Area B
Basic wholesale rate plan						
Service Establishment	$15.00	$15.00	$12.75	$12.75	(15.0%)	(15.0%)
Monthly Access						
1-4 Numbers						
≤ 100 Numbers	$15.03	$22.95	$18.03	$22.95	20.0%	0.0%
> 100 Numbers	$14.30	$21.45	$16.80	$21.00	17.5%	(2.1%)
5-9 Numbers						
≤ 100 Numbers	$15.03	$22.95	$17.13	$21.80	14.0%	(5.0%)
> 100 Numbers	$14.30	$21.45	$15.96	$19.95	11.6%	(7.0%)
10-24 Numbers						
≤ 100 Numbers	$15.03	$22.95	$16.23	$20.66	8.0%	(10.0%)
> 100 Numbers	$14.30	$21.45	$15.12	$18.90	5.7%	(11.9%)
25+ Numbers						
≤ 100 Numbers	$15.03	$22.95	$15.33	$19.51	2.0%	(15.0%)
> 100 Numbers	$14.30	$21.45	$14.28	$17.85	(0.1%)	(16.8%)
Airtime Rates						
Peak						
≤ 13,000 Minutes	$0.206	$0.288	$0.232	$0.280	12.6%	(2.8%)
> 13,000 Minutes	$0.203	$0.284	$0.218	$0.263	7.4%	(7.4%)
> 100,000 Minutes	$0.203	$0.284	$0.210	$0.254	3.4%	(10.6%)
> 150,000 Minutes	$0.203	$0.284	$0.203	$0.245	0.0%	(13.7%)
Off-Peak						
≤ 2,000 Minutes	$0.123	$0.205	$0.120	$0.200	(2.4%)	(2.4%)
> 2,000 Minutes	$0.122	$0.203	$0.113	$0.188	(7.4%)	(7.4%)
> 15,000 Minutes	$0.122	$0.203	$0.109	$0.181	(10.7%)	(10.8%)
> 37,500 Minutes	$0.122	$0.203	$0.105	$0.175	(13.9%)	(13.8%)
Monthly Feature						
First	$1.50	$1.50	$0.00	$0.00	(100.0%)	(100.0%)
Second	$0.75	$0.75	$0.00	$0.00	(100.0%)	(100.0%)

SVLP Area A: Sacramento MSA, Stockton MSA, Modesto MSA, Yuba City MSA, Sierra RSA, southern portion of Tehama RSA

WHOLESALE CONTRACT PLANS:
For SVLP Area A

- The same four new 12-month contract plans introduced to retail customers are also available to resellers. The peak period is the same as for the proposed Basic Rate Plan (Monday through Saturday 7:00am to 8:00pm). The 150-minute end user mentioned with a proposed wholesale Basic Rate Plan Bill of $47.14 would generate charges of only $43.39 on Plan B (a savings of $3.75, or 8.0%).

Contract Plan Rate Element	Plan A	Plan B	Plan C	Plan D
Wholesale (Area A)				
Contract Duration (months)	12	12	12	12
Early Cancellation Penalty	$120.00	$120.00	$120.00	$120.00
Service Establishment	$12.75	$12.75	$12.75	$12.75
Monthly Access				
Bundled Minutes	50	150	300	500
≤ 100 Numbers	$25.20	$44.62	$71.22	$102.73
> 100 Numbers	$24.29	$43.39	$69.99	$101.50
Incremental Airtime Rates				
Peak				
≤ 13,000 Minutes	$0.232	$0.232	$0.232	$0.232
> 13,000 Minutes	$0.218	$0.218	$0.218	$0.218
> 100,000 Minutes	$0.210	$0.210	$0.210	$0.210
> 150,000 Minutes	$0.203	$0.203	$0.203	$0.203
Off-Peak				
≤ 2,000 Minutes	$0.120	$0.120	$0.120	$0.120
> 2,000 Minutes	$0.113	$0.113	$0.113	$0.113
> 15,000 Minutes	$0.109	$0.109	$0.109	$0.109
> 37,500 Minutes	$0.105	$0.105	$0.105	$0.105
Discount	0.0%	3.0%	6.0%	10.0%

SVLP Area A: Sacramento MSA, Stockton MSA, Modesto MSA, Yuba City MSA, Sierra RSA, southern portion of Tehama RSA

ROAMING

- SVLP has simplified its roaming rate structure by charging the same rate during peak and off-peak periods and the same rate in Areas A and B; California-based roamers will pay a lower roaming rate (79¢ per minute) than out-of-state roamers (99¢ per minute). SVLP retail customers roaming elsewhere in California will not pay more than 60¢ per minute (with no daily access charges).

	Current Charges		Proposed Charges		% Increase (Decrease)	
Price Plan	In Area A	In Area B	In Area A	In Area B	In Area A	In Area B
Rates for California-based roamers						
Service Establishment						
Occasional	$15.00	$15.00	$15.00	$15.00	0.0%	0.0%
Automatic	$0.00	$0.00	$0.00	$0.00	0.0%	0.0%
Daily Access	$0.00	$0.00	$0.00	$0.00	0.0%	0.0%
Airtime Rates						
Peak	$0.450	$0.550	$0.790	$0.790	75.6%	43.6%
Off-Peak	$0.150	$0.270	$0.790	$0.790	426.7%	192.6%
Rates for out-of-state roamers						
Service Establishment						
Occasional	$15.00	$15.00	$15.00	$15.00	0.0%	0.0%
Automatic	$0.00	$0.00	$0.00	$0.00	0.0%	0.0%
Daily Access	$0.00	$0.00	$0.00	$0.00	0.0%	0.0%
Airtime Rates						
Peak	$0.450	$0.530	$0.990	$0.990	120.0%	80.0%
Off-Peak	$0.150	$0.270	$0.990	$0.990	560.0%	266.7%
Roaming by retail and wholesale end users in California outside the Company's CGSAs	All incurred charges are passed through to the customer		Airtime 60¢ per minute (no access charges). Alpine, El Dorado, and Modoc home-roam charges will be passed through to the customer. Usage by wholesale end users on Los Angeles and San Diego wireline systems will be rated at 45¢ per minute.		The % increase or decrease varies depending on the rates in the serving area and the usage patterns of the customer.	

SVLP Area A: Sacramento MSA, Stockton MSA, Modesto MSA, Yuba City MSA, Sierra RSA, southern portion of Tehama RSA

SVLP Area B: [illegible]

ROAMING (continued)

- SVLP proposes to continue to offer more favorable automatic roam rates to customers of carriers that extend favorable rates to SVLP customers and with which validation facilities permit lower costs to SVLP. The rates below are exceptions to those listed on the previous page; the peak period for each will be Monday through Saturday 7:00am to 8:00pm (excepting specified holidays).

	Current Charges		Proposed Charges		% Increase (Decrease)	
Price Plan	In Area A	In Area B	In Area A	In Area B	In Area A	In Area B
Airtime rates for Area A and Alpine same-switch roamers						
Peak	$0.250	$0.350	$0.290	$0.350	16.0%	0.0%
Off-Peak	$0.150	$0.250	$0.150	$0.250	0.0%	0.0%
Airtime rates for Area B same-switch roamers						
Peak	$0.350	n/a	$0.350	n/a	0.0%	n/a
Off-Peak	$0.250	n/a	$0.250	n/a	0.0%	n/a
Airtime rates for El Dorado wireline roamers						
Peak	$0.290	$0.550	$0.290	$0.790	0.0%	43.6%
Off-Peak	$0.150	$0.270	$0.150	$0.790	0.0%	192.6%
Airtime rates for Modoc same-switch roamers						
Peak	$0.350	$0.350	$0.350	$0.350	0.0%	0.0%
Off-Peak	$0.250	$0.250	$0.250	$0.250	0.0%	0.0%
Airtime rates for Nevada same-switch roamers						
Peak	$0.450	$0.550	$0.500	$0.500	11.1%	(9.1%)
Off-Peak	$0.150	$0.270	$0.500	$0.500	233.3%	85.2%

Usage by wholesale end users from Area A, Area B, and Modoc when roaming in Area A, Area B, or Modoc will be rated at the appropriate wholesale rate in that area for that reseller.

SVLP Area A:	Sacramento MSA, Stockton MSA, Modesto MSA, Yuba City MSA, Sierra RSA, southern portion of Tehama RSA
SVLP Area B:	Chico MSA, Redding MSA, northern portion of Tehama RSA

APPENDIX C
Page 1

Deficiencies in Application

Listed below are the areas of the application where deficiencies exist. We are directing the applicant to provide additional information, as noted, to permit a final decision on the merits of the application. Some of the referenced material below was provided confidentially to the ALJ under GO 66-c and not disclosed to other parties. Accordingly, this appendix shall be provided confidentially only to applicant initially. Applicant shall advise the ALJ in a timely manner as to whether any of Appendix C should remain confidential.

1. Return on Investment

The applicant has not justified that a return on investment as high as 12.7% should be funded through a rate increase, or that it reflects the true cost of capital for the partnership in 1994, considering its risk and potential for future profits. We direct SVLP to recast its proposed rate increase to assume a return on investment of 9.75% for 1994, the midpoint of the range we identify in our findings above.

2. Roamer Increases

Applicant has not justified that a roamer increase of 45% is justified given the rate of inflation and increase in costs of providing roamer service. We conclude that any increase in roamer rates should be limited to that granted for retail service. Applicant's showing should be revised accordingly.

3. Customer Growth

Between 1991 and 1994, applicant projects retail customers to grow by 140%. Given its significance as a determinant of earnings, documentation is required to justify the customer growth assumptions. This documentation should explain how customer growth is affected by competition for relative market share with its competitor over time. Applicant should document what demographic, economic, and industry factors were used to estimate customer growth through 1994.